

Analysis of the latest economic growth and labour market figures for Scotland

HEADLINES

- Scotland performed better in the latest official releases, with both the economy and employment growing, although unemployment also grew.
- On an annual basis Scottish GDP has grown by 1.2%, well above the 0.5% seen for the UK. This differential was principally reflected in better Scottish performances over the year in Manufacturing, Construction and Business services.
- ONS recently announced downwards revision to UK GDP figures, which led to the post 2007 recession being deeper than had previously been thought (with a peak to trough decline of 7.2% rather than the previous 6.3%), but with no greater bounce-back thereafter.
- No such revisions have occurred to the Scottish GDP data and so Scotland's recessionary dip now appears to be substantially less than that experienced by the UK (-5.6% in comparison to -7.3¹%) although its recovery continues to lag that of the UK (+3.8% in comparison to +4.7%).
- Scotland's employment rate rose by 0.6% over the year to March-May 2013, which is in line with the UK position. However this Scottish rise is at odds with the 30,000 fall in workforce jobs recorded over a similar period.
- Recent substantial revisions to UK GDP data reinforce the point that all data at present should be treated with a degree of caution, both at the UK and Scottish levels. In particular, small changes in absolute levels or in relative differences should not be given undue importance as they may well change over time as further revisions emerge.

Gross Domestic Product

Scotland

- In the first quarter of 2013, Scottish GDP rose by 0.4%, compared to the previous quarter.
- The rise was largely as a result of a 5% rise in Financial services, although this only reversed the falls seen in this area in the previous two quarters.
- On an annual basis, comparing the most recent quarter to the corresponding quarter of the previous year, Scottish GDP rose by 1.2%.

¹ This UK figure differs to the one given in the previous paragraph as, in order to make the Scotland - UK comparison on a like-for-like basis, it excludes North Sea Oil output.

Scotland & the UK

(Note: All of the figures below refer to the GDP of Scotland and the UK excluding the offshore extraction of North Sea oil and gas. This is the most appropriate, 'like for like', growth comparison. The alternative measure assigns all offshore North Sea activity to the UK and none to Scotland.)

- In the first quarter of 2013, Scottish GDP rose by 0.4%, compared to the previous quarter, while UK GDP rose by 0.2%.
- On an annual basis (ie in comparison to the first quarter of 2012), Scotland has grown by 1.2%, well above the 0.5% seen for the UK. This differential was principally reflected in better Scottish performances over the year in Manufacturing (+1.9% vs -2.6%), Construction (+2.3% vs -6.3%) and Business services (+9% vs +2.2%), note that this excludes Financial services).
- As a result of these revisions, Scotland is now seen to have suffered even less of a post 2007 recession than the UK (peak to trough of -5.6% vs -7.3%). However, since then it has not managed to match even the UK's rate of recovery (3.8% vs 4.7%).
- This is worrying as even the UK's recovery is very poor by international standards. Using the latest revised UK data, the ONS estimate that while most of the G7 economies are now performing near (France and Japan) or above (Canada, USA, Germany) their pre recessionary peaks, the UK (including North Sea activity) is still some 4% short of regaining that level, with only Italy performing worse.
- Much of this Scottish underperformance relative to the UK recovery phase can be attributed to the 'Health and Social Work' sector, where Scottish output has grown at only around half the rate seen for the UK.
- The impact that North Sea oil and gas activity has on the UK economic performance can be seen by the fact that since the recessionary trough in 2009Q2, UK GDP including the North Sea has experienced 4 quarters of contraction while excluding it there have been only 2 quarters of contraction and the economy has grown by a full percentage point more. This highlights the impact of the on-going decline in North Sea production on UK GDP.

Revised UK economic growth data

Some commentators viewed the most recent data on UK economic growth as being good news as it removed a quarterly fall in GDP for 2012Q1, hence removing the technical recession of two consecutive quarters of falling output.

However, this is very much statistical nit-picking. For the 3 quarters 2011Q3 to 2012Q2, the pattern [-0.1%/ -0.1%/ -0.4%] has been revised [to -0.1%/ 0%/ -0.5%]. In other words exactly the same overall fall (-0.6%) over the 3 quarters, just slightly differently distributed.

The real news was with respect to longer term revisions, with the recession now being calculated as having been deeper than previously thought so that output now (2013 Q1) stands 3.9% below the pre-financial crisis peak of 2008 Q1, instead of the previously

estimated 2.6% below. (Note: these substantial revisions did not flow through to Scottish GDP in today's publication.)

If future growth is constrained to the recent average of around 0.25% a quarter then UK GDP will not regain its pre-recession peak until 2017, a full nine years later². As with so many features of the current downturn, this slow rate of recovery is unprecedented, by some margin.

The recent substantial revisions to UK GDP data reinforce the point that all data at present should be treated with a degree of caution, both at the UK and Scottish levels. In particular, any small changes in absolute levels or in relative differences of performance between Scotland and the UK should not be given undue importance as they may well change over time as further revisions emerge.

Rather it is the bigger differences, and those that appear to be trending over time, that are of most importance, for example, the poorer Scottish output performance with regards to Health and Social work services over the past 5 years and the continuing 'productivity puzzle' with regards to recovering employment while output remains flat.

Labour Market

Scotland

- Scotland's employment rate rose by 0.2% over the quarter to March-May 2013 and by 0.6% over a year ago. The unemployment rate also rose, by 0.3%, but is down by 0.4% on a year ago.
- The annual rise in employment captured in the Labour Force Study (+20,000) is at odds with the fall in workforce jobs (-30,000) also reported in the latest ONS labour market statistics.

Scotland & the UK

- Scotland continues to have a higher employment and a lower unemployment rate than the UK.
- Over the past year the changes to Scotland's employment and unemployment rates have been in line with those seen for the UK as a whole. The biggest rises in the employment rate were seen in Yorkshire and the Humber and in London. Falls were seen in four regions.

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² Regaining the previous GDP per capita peak level, it will take even longer.